

## MEMO

**Submitted to:** ABAG Executive Board

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**Subject:** Solar and Energy Efficiency Financing District

**Date:** September 2, 2009

### **Executive Summary**

ABAG and PG&E are collaborating to explore the viability of a San Francisco Bay Area region-wide solar and energy efficiency financing district. As currently envisioned, the program would offer a “one-stop shop” for customers to take advantage of property-based financing in support of ‘bundled’ energy efficiency and renewable projects to meet their energy management needs. The initial program concept was outlined in a staff report for the March 2009 ABAG Executive Board meeting, and status updates have been provided at the May and July 2009 ABAG Executive Board meetings. This staff report highlights initial findings from a market research study, the approach for developing a business case, and the status of Senate Bill 279. Since the program is in the development phase, information provided in this report is subject to change.

### **Recommended Action**

This agenda item is informational. The attached staff report provides an update on program activities.

### **Next Steps**

ABAG and PG&E will continue working together to advance program design, market research analysis, business case development, and passage of SB 279.

**Attachments:** Solar and Energy Efficiency Financing District Report



# **Solar and Energy Efficiency Financing District**

## **Program Update**

### **Program Concept**

ABAG and PG&E are collaborating to explore the viability of a San Francisco Bay Area region-wide solar and energy efficiency financing district. As currently envisioned, the program would offer a “one-stop shop” for customers to take advantage of property-based financing in support of ‘bundled’ energy efficiency and renewable projects to meet their energy management needs. The program would be supportive of climate goals outlined in the *Scoping Plan* prepared by the California Air Resources Board, the California Energy Efficiency Strategic Plan, and local climate action plans, while also promoting job creation. The initial program concept was outlined in a staff report for the March 2009 ABAG Executive Board meeting, and status updates have been provided at the May and July 2009 ABAG Executive Board meetings. This staff report highlights initial findings from a market research study, the approach for developing a business case, and the status of Senate Bill 279. Since the program is in the development phase, information provided in this report is subject to change.

### **Initial Market Research Findings**

ABAG and PG&E fielded a market research study to explore the customer interest in an Energy Financing district concept. The study was fielded online with 1000 customers who reside in one of ABAG’s nine counties. Participants in the survey were homeowners, home improvement decision makers, and PG&E customers. The study gathered information about customer’s demographics, psychographics, and intended home improvement activities. Customers were presented with a detailed Energy Financing district concept to gauge interest in the general concept and in specific program variables.

The objectives of the study were to identify which residential customers are most likely to participate in an energy efficiency home retrofit financing program and why; optimize the financing program offering, so that future policy is based on customer needs; and design and identify the levers that are most likely to increase customer program participation.

In general, customers are interested in home improvement activities. A majority of homeowners (76%) intend to install home improvements in the next 5 years, and about two-thirds of these (51% of the total) intend to do so in the next 12 months. Top reasons homeowners give for wanting to make energy improvements are to “improve the physical comfort of my home” (mentioned by 38% as their number one reason) and to “save money on energy bills” (mentioned by 29%).

Eight percent of customers are aware of the concept of an Energy Financing district and more importantly, 40% state that they would be more likely to make energy-related home improvements if this financing option was available. After customers were presented with the Energy Financing concept, they were asked to select their most preferred

payment method for home improvements. Customers selected Energy Financing as the second most preferred payment method (21%), preceded by savings (49%). A home equity line of credit is third with 13%.

Those who prefer the Energy Finance Program are differentiated by: having higher summer and winter PG&E bills, participating in more PG&E programs, having their property taxes impounded, and generally using credit more (40% have an outstanding HELOC or second mortgage and 27% are likely to carry a balance on their credit cards). Eighty percent state that their credit is Excellent or Very Good. The customers who are most likely to select the Energy Financing program are more likely to be females with children living at home.

Homeowners have a stronger preference for smaller loan amounts (\$5k to \$10k) over larger ones (\$20k to \$40k). PGE (35%) is the most preferred provider of an Energy Financing program, followed by PG&E and ABAG (19%). Only eight percent of customers select ABAG as the programs' preferred provider: this is likely because ABAG's awareness is only 32%. There is also a strong preference for the option of being able to pay off the loan early. Not surprising, customers prefer lower interest rates to higher ones and longer length terms to shorter ones.

### **Business Case Approach**

ABAG and PG&E are working together to produce a joint business case to provide both agencies' leadership information to decide whether the program concept is viable and should be pursued. Major components to the business case include a description of program services, strategic business goals, market overview, financial and risk analysis, exit strategy, and measurements for program success.

PG&E is working with ABAG to prepare a financial model for the business case. Results from the recently completed market survey will inform the financial model and program design. The business case will test two potential program delivery channels: through existing home improvement retailers or through web based channels. In addition, the business case will estimate various programmatic factors, such as: market size, participation/penetration rate, operating costs, and financing costs. Once completed, the business case will be presented to the ABAG Executive Board and PG&E decision-making entities.

### **Legislative Update on SB 279**

The energy financing district concept is based on the financing mechanism that would be allowed by the passage of Senate Bill 279 (SB 279). The bill is based on the Mello-Roos Community Facilities Act of 1982, which allows a community facilities district to finance community improvements, and would amend this act to allow a district to finance energy efficiency and renewable energy improvements to or on real property. Passage of this bill is seen as critical to the creation of the energy financing district. Senator Hancock introduced SB 279 this year. The bill passed the Senate and passed the Assembly floor. *The bill was amended to incorporate water conservation.* The bill now returns to the Senate for concurrence. Critical legislative dates are as follow:

Sep. 11	Last day for bill to be passed
Oct. 11	Last day for Governor to sign or veto bills

Therefore, by the September 17<sup>th</sup> ABAG Executive Board meeting, staff will be able to provide an update as to whether the bill was passed by the legislature.

### **Next Steps**

Prior to the November Executive Board meeting, next steps in defining the regional solar and energy efficiency district include continuing market research studies, monitoring SB 279, and finalizing the business case. PG&E is also assessing the potential impacts to this project from some content contained in the CPUC Proposed Decision to the 2010 to 2012 Energy Efficiency Portfolios.

